

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Housing Finance Agency
Baton Rouge, Louisiana

December 18, 2002



***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana

Dated December 2, 2002

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

December 18, 2002

LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana

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OFFICE OF
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December 2, 2002

**MS. HELENA R. CUNNINGHAM, PRESIDENT,
AND BOARD OF COMMISSIONERS
LOUISIANA HOUSING FINANCE AGENCY**
Baton Rouge, Louisiana

We have performed a limited examination of the Louisiana Housing Finance Agency's (LHFA) Substandard Housing Assistance for Rural Economies (SHARE) Programs and LHFA's ethics policies. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

A limited examination is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The accompanying report presents the background, our conclusions, methodology, and findings and recommendations, as well as your response. The report also includes the pictures and other related information that support our findings (Attachments I and II). We will continue to monitor the findings until you resolve them. Copies of this report have been delivered to the Honorable Doug Moreau, District Attorney for the Nineteenth Judicial District of Louisiana; the United States Department of Housing and Urban Development; the United States Department of Health and Human Services; the Louisiana Board of Ethics; and other authorities as required by state law.

Respectfully submitted,

A handwritten signature in black ink that reads "Daniel G. Kyle". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

GLM:GCA:ss

[LHFA02]

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LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana

CONCLUSIONS

The following summarizes the findings that resulted from this limited examination of the Louisiana Housing Finance Agency (LHFA). The Findings and Recommendations section of this report provides details for these findings. Management's Response is included in Appendix A.

1. LHFA has inadequately managed and monitored the SHARE programs resulting in substandard and incomplete work for which the contractor was paid. In addition, the amount paid the contractor for many of the repairs and renovations appears excessive. (See page 9.)
2. Employees violated LHFA's ethics policy by accepting meals and gifts from entities that do business with LHFA. In addition, a board member and the president of LHFA may have violated Louisiana's Code of Governmental Ethics by accepting gifts from a bank that does business with LHFA. (See page 10.)

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LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana

BACKGROUND

SHARE Programs

The Louisiana Housing Finance Agency (LHFA) administers various programs to assist in the financing of housing needs in the State of Louisiana for persons of low and moderate incomes. Our limited examination focused on two programs administered by LHFA: the (1) Substandard Housing Assistance for Rural Economies (SHARE) Grant Program and (2) Tri-Delta SHARE Grant Program. Funding for these two programs comes from the United States Department of Housing and Urban Development (HUD) and the United States Department of Health and Human Services (HHS).

Funds for the SHARE Grant Program come solely from HUD and are used to rehabilitate substandard single family homes. The program is intended to help lower income and very low-income individuals and families live in safe, sanitary, decent and affordable housing. LHFA administers the program through a local governmental unit (LGU) such as a village, town, or parish government, as follows:

- LHFA provides training to the LGU to include the procedures for selecting contractors and performing inspections of the renovations and repairs.
- The LGU may select a consultant to assist them in fulfilling their responsibilities.
- The LGU/consultant identifies eligible homeowners to receive the rehabilitation awards.
- Eligibility is determined by the LGU but is reviewed and approved by LHFA.
- The LGU/consultant prepares the detailed specifications of the rehabilitation work to be completed for each unit (home).
- The LGU/consultant obtains competitive prices for the detailed specifications for each unit from qualified contractors.
- LHFA approves the detailed specifications and prices. Each unit is limited to \$15,000 or up to \$20,000 in certain circumstances.
- The LGU/consultant selects the contractor and draws up a contract to which the LGU, the contractor, and the eligible recipient are a party.
- The LGU is allowed to requisition funds to pay the contractor at the 50% stage of completion and upon completion of the unit. However, before LHFA releases the funds, an inspection of the unit is conducted jointly by the LGU, consultant, LHFA representative, homeowner, and contractor to examine all work completed, to check that work completed corresponds to the approved scope of work, and to record the percentage of work completed and the balance remaining to be done.

As of September 5, 2002, LHFA has paid 27 LGUs a total of \$4,557,908 to rehabilitate 266 units under the SHARE Grant Program.

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LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana
Background (Concluded)

The Tri-Delta SHARE Grant Program's structure is identical to that of the SHARE Grant Program, except that LHFA selects the contractor and consultant. The funding sources of the Tri-Delta SHARE Grant Program come from both HUD and HHS. The Tri-Delta SHARE Grant Program rehabilitates substandard single family homes located in the three parishes of East Carroll, Madison, and Tensas. As of September 5, 2002, LHFA has paid a total of \$1,468,108 to rehabilitate 72 units located in these three parishes.

Ethics Policy

LHFA's ethics policy relating to gifts, food, and entertainment states:

1. "An employee of the Agency will neither ask for nor accept any gift, favor or other benefit in exchange for doing his/her job. An employee of the Agency will not offer for personal gain:
 - an unfair advantage to anyone participating in Agency's administrated programs;
 - contracts to do business with the Agency; or
 - any other monetary benefits.
2. Offers of food and entertainment will be declined, with the following exceptions:
 - the offer is from a personal friend and has nothing to do with official duties;
 - the offer would be difficult or impossible to refuse (i.e., lunch at a conference);
 - the offer is *de minimus* (i.e., a cup of coffee).
3. Employees of the Agency will decline gifts offered because of their position, except promotional items, having no substantial resale value."

LHFA's ethics policy relating to meals is more restrictive than the state's Code of Governmental Ethics. Louisiana Revised Statute (R.S.) 42:1102(22) allows food, drink, or refreshments consumed by a public servant while the personal guest of some person. Because LHFA's ethics policy is more stringent than the state's ethics law, LHFA employees have a fiduciary responsibility to adhere to LHFA's ethics policy.

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Baton Rouge, Louisiana

METHODOLOGY

We inspected ten of the 266 units rehabilitated through the LHFA SHARE Grant Program and four of the 72 units rehabilitated through the LHFA Tri-Delta SHARE Grant Program. These units were located in the Town of Oak Grove, Village of Pioneer, and Town of Lake Providence.

The total cost to rehabilitate these 14 units totaled \$253,065 or 4.2% of the total cost of \$6,026,016 paid as of September 5, 2002, to rehabilitate all 338 units. The houses we inspected were rehabilitated between March 2001 and August 2002. Our last inspection of units was completed on September 12, 2002.

Our inspections for each unit selected consisted of the following:

- Obtaining an understanding of the two grant programs
- Obtaining from LHFA a copy of the completed detailed work list and related costs
- Visiting each unit selected for a detailed inspection
- Comparing, on a test basis, the work done to the scope of work listed on the completed detailed work list
- Reviewing the reasonableness of the amount paid to the contractor to complete the scope of work listed on the completed detailed work list
- Interviewing the homeowner
- Interviewing the LHFA representative who inspected the houses
- Interviewing the contractor who made the repairs and renovations to the units
- Interviewing the consultants
- Interviewing the local governmental officials

We also reviewed LHFA's ethics policy and mailed confirmations to all LHFA board of commissioners, LHFA employees at the manager level and higher, LHFA bond counsel, and selected financial institutions and advisors participating in LHFA mortgage programs.

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LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana

FINDINGS AND RECOMMENDATIONS

SHARE Programs

The Louisiana Housing Finance Agency (LHFA) has inadequately managed and monitored the SHARE programs resulting in substandard and incomplete work for which the contractor was paid. In addition, the amount paid the contractor for many of the repairs and renovations appears excessive. LHFA has a federal mandate and fiduciary responsibility to ensure that the programs it administers to rehabilitate substandard single family homes are done properly and at the most cost effective price.

We inspected 14 houses rehabilitated through the LHFA Tri-Delta SHARE and SHARE Grant Programs. For 12 of the 14 houses, the contractor (Buddy Kelly Construction) did substandard work and did not complete work for which he was paid. In addition, it appears Buddy Kelly Construction was paid excessive amounts for certain repairs and renovations. Although LHFA staff stated that they verified that all work was done properly, Attachment I provides pictures and other related information pertaining to substandard work, work not completed, and excessive amounts paid for each of these 12 houses.

For a two-year period ending September 30, 2002, the LHFA employee responsible for overseeing the contractor's work confirmed to us that he received 19 meals totaling \$144 from Buddy Kelly Construction. In addition to violating LHFA's ethics policy that prohibits employees from accepting meals (see finding, *Failure to Comply With Ethics Policy*), there is a perception that the employee's independence is impaired by accepting such meals. We requested a written confirmation from Buddy Kelly as to whether he provided anything of value to any employee of LHFA. Mr. Kelly did not respond to our request.

In addition to paying the contractor for substandard and incomplete work, the homeowners failed to receive proper rehabilitation of their homes. These programs failed to fully help the lower income individuals and families live in safe, sanitary, and decent housing. Also, the homeowners could have received additional repairs and renovations if excessive amounts had not been paid for certain items.

LHFA should reinspect all completed houses, from the inception of the SHARE programs through the date of this report, to ensure that the work at every house was completed properly and at a competitive price. Competent and qualified individuals should perform the reinspection. Based on the reinspection, LHFA should file claims and civil action suits for all substandard, incomplete, or grossly over priced work.

For all houses in progress and for future participation in the SHARE Program, LHFA should:

- Provide training to LHFA staff who inspect the repairs and renovations to ensure that they can determine the rehabilitation needed for each unit and the related estimated costs

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Baton Rouge, Louisiana

Findings and Recommendations (Continued)

- Provide LHFA staff with on the job training to ensure that their inspections of the work done by the contractor is both comprehensive and competent
- Require that LHFA staff periodically make unannounced visits to inspect the progress of the repairs and renovations to ensure that the contractor is performing quality and timely work
- Require that LHFA staff use standardized checklists to ensure that their inspections are both comprehensive and competent
- Require LHFA staff to document, in writing, the extent of their inspections, problems encountered, work not done satisfactorily or not done, progress of the work done, and conclusions reached in their inspections
- Require a detailed description of work to be done that includes the specific building materials to be used, when applicable
- Provide the homeowner a copy of the detailed work list and require that the LHFA inspector review each item with the homeowner to assure that the work was done satisfactorily and that the work meets the homeowner's expectations
- Develop standard building practices that contractors must comply with (e.g., prohibit contractors from installing new shingles over old shingles and installing hollow core doors for external doors)
- Require someone independent of the LHFA inspectors to review selected units after the renovations are completed as a check to make sure all procedures have been followed and that the repairs and renovations were done properly
- Require all employees to certify to LHFA annually that they have not received anything of value that would violate LHFA's ethics policy

Failure to Comply With Ethics Policy

Employees violated LHFA's ethics policy by accepting meals and gifts from entities that do business with LHFA. In addition, a board member and the president of LHFA may have violated Louisiana's Code of Governmental Ethics by accepting gifts from a bank that does business with LHFA. LHFA's ethics policy prohibits their employees from accepting meals and gifts. R.S. 42:1115(A) states, "No public servant shall solicit or accept, directly or indirectly, any thing of economic value as a gift or gratuity from any person or from any officer, director, agent, or employee of such person, if such public servant knows or reasonably should know that such person has or is seeking to obtain contractual or other business or financial relationships with the public servant's agency."

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Baton Rouge, Louisiana

Findings and Recommendations (Continued)

Meals Provided to Employees and Board Members

LHFA has a “financing team” consisting of underwriters, underwriter counsel, bond counsel, financial advisor, trustee, and master servicer, all of whom do business with LHFA. We requested that each member of the financing team confirm to us in writing whether he/she provided anything of value to any employee or board member during the two-year period ending September 30, 2002. Six of the ten members of the financing team responded to our request. The following summarizes five of the six responses that violate LHFA’s ethics policy:

1. Morgan Keegan & Company (underwriters for LHFA bond issues) provided us with a list (see Attachment II) of 23 lunches/dinners it sponsored for LHFA employees and/or board members over the two-year period. Morgan Keegan disclosed that 37 employees and/or board members attended one of the dinners at Juban’s Restaurant. In addition to LHFA employees and board members attending, other professionals and guests unrelated to LHFA board members or staff attended the lunches/dinners.

Morgan Keegan did not provide the cost of the lunches/dinners or the names of the attendees. The managing director stated that he was recalling the number of LHFA attendees by memory and estimated that the per capita costs of business dinners ranged from \$20 to \$50.

The managing director explained that the guests unrelated to LHFA board members or staff were the spouses of the LHFA board members and staff. He said that since he was recalling the number of LHFA attendees by memory, he could not provide us with the number of spouses attending the lunches/dinners.

2. Breazeale, Sachse & Wilson (underwriter counsel) said that it paid \$882 for one-fourth of the cost of a closing dinner for LHFA employees and board members held on March 13, 2001, at DaJoNel’s Restaurant in Baton Rouge. A partner with Breazeale, Sachse & Wilson said that underwriters usually pay for closing dinners and the purpose is to celebrate the closing or issuance of a particular bond issue. He said that the closing dinners include the financing team, LHFA employees and board members, and their spouses.
3. CSG Advisors, Incorporated (LHFA’s financial advisor) stated that it provided closing dinners on March 13, 2001, and December 11, 2001. CSG Advisors did not provide the attendees or the dollar value for these dinners. It did estimate that the per capita costs of such dinners ranged from \$20 to \$50; however, the number of attendees was not provided.
4. Foley & Judell (LHFA’s bond counsel) stated, “Although the firm has provided nothing of economic value to any board member or employee, the undersigned has on occasion picked up the restaurant tab at working lunches within the 2 year period. These working lunches may have included one or more members of staff (i.e., President, Program Director, Staff Attorney) and/or one or more officers of the Board (i.e., SF or MF Chairman).”

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Findings and Recommendations (Continued)

A partner with Foley & Judell said that he pays for working lunches/dinners all the time for LHFA staff and board members. However, he could not provide us with the amounts paid or dates and locations.

5. Although Hancock Bank (LHFA trustee) confirmed that it has not provided anything of value to LHFA employees or board members, an LHFA employee confirmed to us that he was treated to meals by Hancock Bank as follows:
 - December 2000 luncheon provided by Hancock Bank at The Place
 - December 2001 luncheon provided by Hancock Bank at Mansur's Restaurant
 - Spring 2002 luncheon provided by Hancock Bank at a private club on North Boulevard

The four members of the financing team that did not respond to our request are:

- George K. Baum & Company
- Newman & Associates
- UBS Paine Webber
- Siebert Brandford Shake & Company

We requested that each board member and all employees at the manager level and higher confirm to us in writing whether they received anything of economic value from any financial institution, counsel, or advisor that participated in an LHFA mortgage program during the two-year period ending September 30, 2002. Although the financing team provided numerous meals to board members and employees, only three of the 14 responses received from board members and four of the 11 responses received from employees disclosed that they had received these meals (all employees responded and only one board member did not respond). One LHFA employee verbally informed us that she attended dinners held at the City Club, Country Club of Louisiana, and Mansur's Restaurant. However, she did not confirm this information in writing to us.

Gifts Provided by Bank One

LHFA Board Member Larry Ferdinand and LHFA President Helena Cunningham violated LHFA's ethics policy and may have violated Louisiana's Code of Governmental Ethics by accepting gifts from Bank One, which does business with LHFA. Bank One provided the following gifts:

- Board Member Larry Ferdinand was given four Essence Festival tickets valued at \$260 in July 2001.
- President Helena Cunningham was provided entertainment tickets for Summerfest on May 12, 2001. The number of tickets that were given to Ms. Cunningham was not provided, but each ticket cost \$50 according to the Baton Rouge Symphony (sponsor of Summerfest).

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Findings and Recommendations (Concluded)

Mr. Ferdinand disclosed to us in his confirmation response that he received the four tickets. However, Ms. Cunningham did not include in her confirmation response to us that she received the Summerfest tickets.

For the fiscal year ended June 30, 2002, LHFA issued \$171,000,000 (net of draw downs) of single family bonds and paid underwriter fees to Morgan Keegan & Company (\$590,775) and George K. Baum & Company (\$417,476) totaling \$1,008,251 for these bond issues. Also, LHFA paid bond counsel fees totaling \$306,865 to Foley & Judell.

In addition to violating LHFA's ethics policy, public confidence, impropriety, and the perception that independence may be impaired are all at stake whenever management of LHFA receives things of value from financial institutions and others that do business with LHFA.

LHFA employees should strictly comply with the LHFA ethics policy. The LHFA board should adopt policies and practices regulating ethical conduct of board members. At a minimum, management should (1) require annual certification letters from board members and employees attesting to their compliance, and (2) provide the LHFA ethics policy to all entities that do business with LHFA.

(Subsequent Event: After our exit conference on December 2, 2002, and not considered in our finding, an LHFA board member and employee confirmed to us in writing that they received meals and gifts from the financing team. Also, UBS Paine Webber provided to us a listing of meals and gifts provided to LHFA board members and employees.)

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Attachment I

Pictures and Other Related Information Supporting SHARE Grant Program Findings

LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana

**Pictures and Other Related Information
Supporting SHARE Grant Program Findings**

The following provides pictures and other related information for the 12 houses that we inspected that had substandard work done, work not completed, and excessive amounts paid for certain items.

**1. SHARE Grant Program
Oak Grove, Louisiana**

- The contractor was paid \$1,050 to install an electrical extension above the roof. This was not done. See picture below.

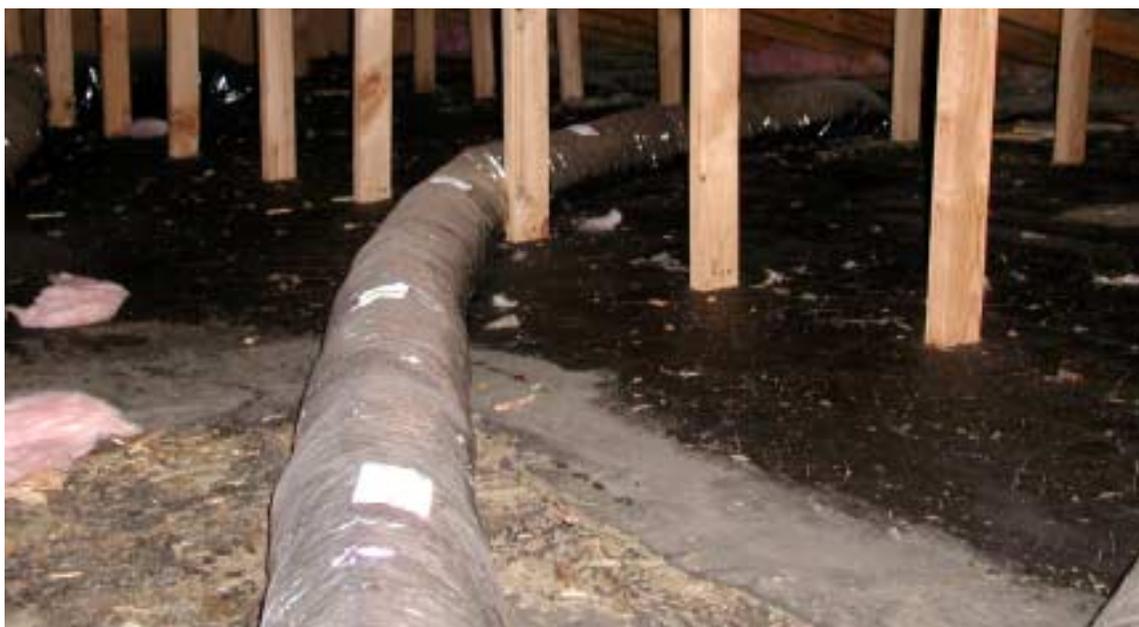


LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$1,400 to insulate the attic. We observed that only about $\frac{1}{4}$ of the attic contained insulation. The other part of the attic (approximately $\frac{3}{4}$ of the attic) had no insulation. See pictures below.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- In addition to the previously mentioned work not done, the following was not done:
 - Termite and pest treatment--\$700. We did not observe whether this was done, but the homeowner said it was not done. She said that she was present at all times during the renovations and did not observe this being done. The contractor told us that he does not have a license to treat termites and that he does not provide a termite certificate.
 - Caulk and paint all woodwork in Bathroom No. 1--\$350. There was no evidence of caulking, although the bathroom appeared to be painted.
 - Caulk around shower in Bathroom No. 1--\$175. There was no evidence of caulking around the shower.
 - Install pop off valve relief tube for hot water heater for Bathroom No. 2--\$350. This was not done.
- Two turbine vents were installed for \$400. However, they were not turning although the wind speed was approximately 5-8 mph.
- The contractor replaced the rotten wood and painted around the window in the living room. However, he did a poor job, as there was no evidence of caulking.

**2. SHARE Grant Program
Oak Grove, Louisiana**



- The contractor was paid \$3,400 to install a new roof. The homeowner said that his roof now leaks and that he tried to repair the shoddy work done on the backside of the house because the leaks were so bad. We observed the following relating to the roof:
 - The front part of the house (approximately one-third of the house) had new shingles, but there was no felt (tar paper) installed to cover the decking.

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Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The back part of the house (approximately two-thirds of the house) had new shingles installed over the old shingles (the old shingles appeared to be very brittle).
- The roof appeared to be warped and wavy.
- There was a depression in the roof where water could collect on the backside of the house (the homeowner tried to repair, but there was still a depression).
- Inside the house we observed watermarks on the ceiling.
- The contractor was paid \$300 (excessive cost) for installing two handrails. See pictures below of the two handrails (the steps were already in place).



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Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$400 to install new formica on the kitchen counters. Nails were used to attach the formica to the cabinet. See picture below.



- We noted the following that was not done:
 - Paint all woodwork in the kitchen (excluding cabinets)--\$400. The kitchen is approximately 8 feet by 12 feet and has a small amount of paneling and a baseboard. However, this was not painted.
 - Install new shoe molding in the kitchen--\$250. There was no shoe molding in the kitchen.
- In addition to the previously mentioned substandard work, the following work was substandard:
 - Paint kitchen cabinets and install new hardware--\$500. The cabinets felt rough as if they were not sanded before painting.
 - Furnish and install vinyl flooring for the kitchen--\$500. There were several places where the vinyl was not attached to the floor (curling up). Also, the vinyl was not cut to fit properly in the corners of the kitchen and around the kitchen door.
 - Furnish and install carpet for bedroom No. 1--\$500. We felt a hole of approximately 1 foot in diameter under the carpet.
 - Furnish and install two turbine vents--\$400. We observed that the turbines were not turning, although there was a wind of approximately 5-8 mph.

The homeowner said that his house is worse now after the renovations have been made.

LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

**3. SHARE Grant Program
Oak Grove, Louisiana**



- The contractor was paid \$3,600 to install a new roof (see picture above). We observed that the new shingles were installed over the old shingles (the old shingles appeared to be very brittle). We observed that under the first row of new shingles (approximately 2 feet along the edge of the roof) there was no felt (decking was bare-no covering) and under the next row of new shingles were the old shingles.

The homeowner said that the roof now leaks when it rains. We observed inside the house where the ceiling had watermarks. See next picture of evidence where the roof had leaked.

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Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- Picture of the hot water heater vent in the bathroom where there are watermarks on the ceiling tile. These watermarks are consistent with the homeowner's complaint that the roof leaks when it rains.



- Picture of smoke/carbon dioxide detector furnished and installed for \$150 (excessive cost). The detector is battery operated. We pressed the test button and found that the detector did not work.



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Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$600 (excessive cost) to replace missing screens. However, we did not observe any new screens and two windows did not have screens. According to the homeowner, the contractor did not replace the missing screens. See pictures below for the two windows that did not have screens.



LOUISIANA HOUSING FINANCE AGENCY

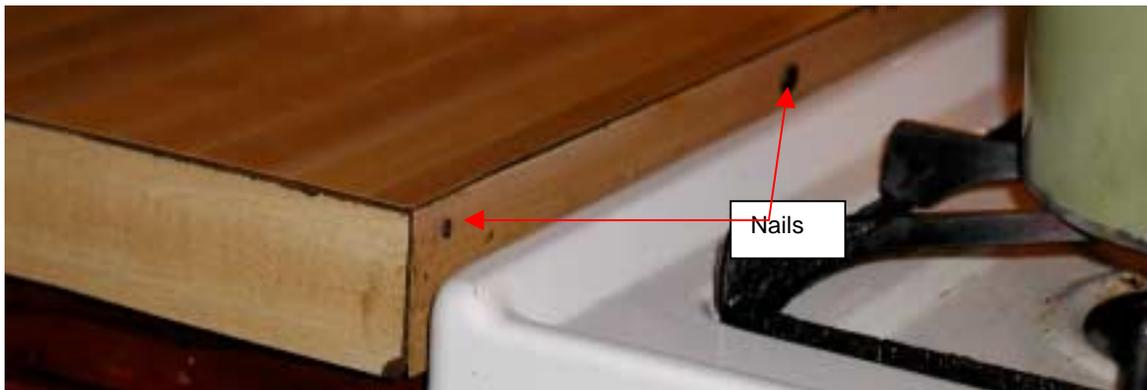
Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$250 to varnish the windowsills and the door in the kitchen and dining area. The windowsills in the kitchen and dining room do not appear to have been varnished. The homeowner said that the windowsills and door were not varnished.



- The contractor installed new formica on the kitchen counter top for \$600. The work was substandard as some of the formica was nailed instead of glued to the counter top. See pictures below.



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Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$100 to replace the lock and strict plate for the kitchen/dining room door. The picture below shows the substandard work the contractor did in replacing the strict plate.



The homeowner was not satisfied with the quality of the work done or the quality of the building materials used by the contractor. For example, the contractor furnished and installed a new front door for \$350. This was a hollow core door and the homeowner does not feel safe with such a light door. The homeowner said that someone could easily knock the door down or punch a hole through the door.

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Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

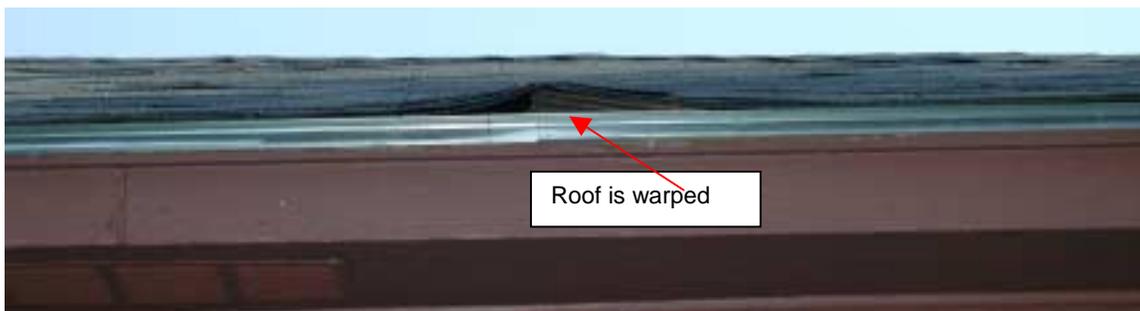
**4. SHARE Grant Program
Oak Grove, Louisiana**

The homeowner was not present during our inspection. Therefore, we could only observe the outside of the house.

- The contractor was paid \$3,600 to install a new roof (see picture of house below with new roof). We observed that the new shingles were installed over the old shingles (the old shingles appeared to be very brittle). We observed that under the first row of new shingles (approximately 2 feet along the edge of the roof) there was no felt (decking was bare-no covering) and under the next row of new shingles were the old shingles.



See below for picture of where the roof is warped.



LOUISIANA HOUSING FINANCE AGENCY

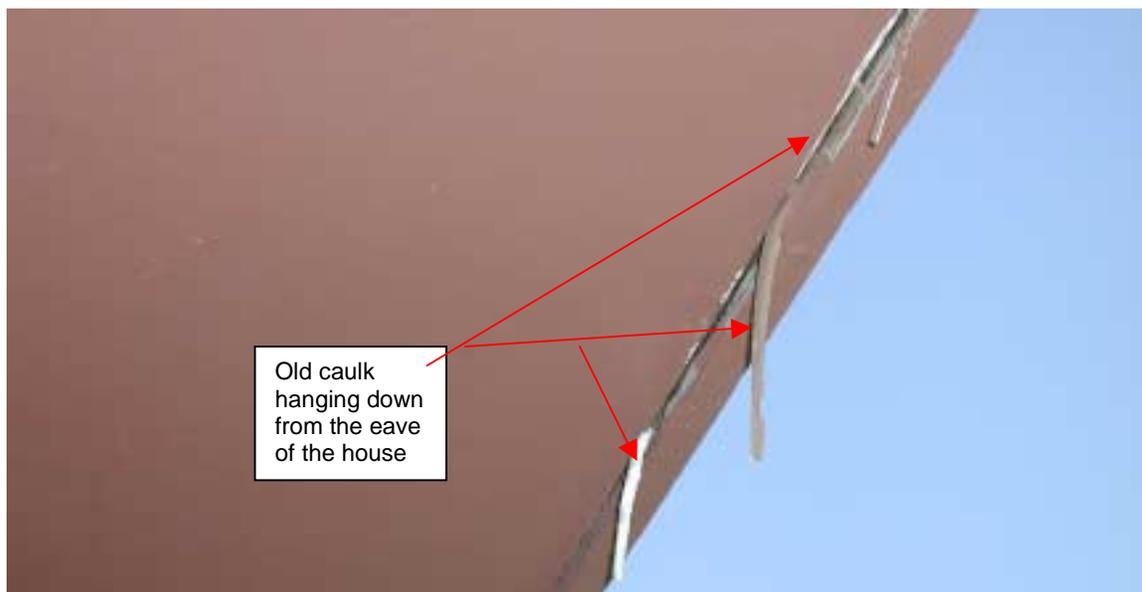
Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$500 (excessive cost) to replace the missing screens and five broken windowpanes. There are seven windows and only one out of the seven windows had a screen and it was damaged. The picture below is a window without a screen.



- The contractor was paid \$800 to scrape and paint the woodwork to the exterior of the house. It appears that the house may have been painted, but it does not appear to have been scraped or caulked. The picture below shows where old caulk is hanging down under the eave of the house.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor furnished and installed the light fixture in the carport for \$150 (excessive cost). See picture of the light fixture below.



- The contractor installed two turbine vents (roof) for \$400. We observed that one of the turbines was new and the other one had a new head (the base was not new). Neither of the turbines was turning, although the wind speed was approximately 5-8 mph.

**5. Tri-Delta SHARE Grant Program
Lake Providence, Louisiana**

- The contractor was paid \$3,600 to install a new roof. The work write-up did not specify the type of roof, but the aluminum roof installed appears substandard. In particular, the seams are not sealed (see picture below where it appears like cracks in the roof). The homeowner said that the roof leaks when it rains. We observed inside the house where the ceiling had watermarks. See next picture of evidence where the roof had leaked.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- Picture of watermark on ceiling in bedroom. The homeowner said that after the new roof was installed, water started leaking from the ceiling. He said that there were no leaks before the new roof. In addition to this watermark in the bedroom, we observed three other places where the ceiling had watermarks (all new ceiling tile, so the watermarks occurred after the new roof and new ceiling tiles were installed). The homeowner said that he tried to repair the leaks himself.



- Picture of outside storage closet where the contractor did not install new entry doorknob. The contractor was paid \$500 to install one new metal door unit and new entry doorknobs on the two rear storage closets. The metal door was installed, but the doorknobs for the two rear storage closets were not installed.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$1,200 to install two new ventless heaters vented through the walls. The contractor installed the heaters but did not vent them through the walls. Two heater vents were attached to the outside wall but were not connected to the heaters. We observed that there was no hole in the outside wall. See pictures below of the outside vents.



Outside view of the two heater vents



Close-up view of one of the heater vents



View from under the heater vent showing that there is no hole in the wall and that the heater inside is not vented to the outside.

LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$600 to install one additional outlet, a light fixture and a light/vent hood vented through the roof. The contractor did not install the additional outlet and did not vent the vent hood through the roof. See picture below of the vent hood.



- The contractor was paid \$950 to install vinyl flooring in the kitchen. The picture below shows where the vinyl flooring is curling up. Also, molding was not used to anchor the vinyl to the floor at the door threshold.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$800 to install ten window screens and ten security bars (excessive cost). In addition, the security bars are approximately 2½ foot aluminum rods that are simply placed in the window casing. They are not attached to the window and do not have a locking device. See picture below of a window with a screen attached and a picture of a security bar.



Security Bar and Window Screen



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$150 to install a new light fixture in the living room (excessive cost). The homeowner said that the electrical wiring was already present and the contractor did not have to do any re-wiring for the light. The contractor simply purchased a new light fixture and changed out the old light fixture with the new light fixture.



**6. Tri-Delta SHARE Grant Program
Lake Providence, Louisiana**

- The contractor was paid \$3,800 to install new shingles. The roof appeared to be wavy and warped in places. There was no felt (tar paper) under three of the four places we inspected. The one place we observed felt, it did not fully cover the decking (plywood). The homeowner complained that her roof started leaking after the new roof was installed.



See next picture for evidence where the ceiling has watermarks.

- The picture to the right shows a watermark on the ceiling in the dining room. The homeowner said that after the roof was installed, water started leaking from the ceiling. She said that there were no leaks before the new roof. In addition to this watermark in the dining room ceiling, we observed two other places where the ceiling had watermarks.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$2,000 to pressure wash the entire exterior of the house, install new treated 1" x 12" around entire perimeter of unit, replace all damaged masonite siding, and caulk all cracks and paint entire exterior with two coats of paint. The treated 1" x 12" around entire perimeter of unit was not done.
- The contractor was paid \$600 to install a new metal door unit. A wooden door unit was installed instead.

**7. Tri-Delta SHARE Grant Program
Lake Providence, Louisiana**

- The contractor was paid \$700 to install masonite siding on the exterior of the utility room and paint it with two coats. The pictures below show that the contractor did not complete putting the masonite siding on the exterior of the utility room. Also, the pictures reveal other serious problems with the house.



Masonite siding not installed on the entire exterior of the utility room (top and bottom view).



Other serious problems with the house not addressed

LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$1,200 to install 14 security bars, replace 4 broken panes, install 10 missing screens, replace a windowsill, and properly brace an A/C unit. The picture on the right shows substandard work as the air conditioner is not braced properly. In addition, the window screens were not installed.



- The contractor was paid \$650 (excessive cost) to install a new interior door with hardware to bedroom #3 and to finish out both closets with two new door units with hardware. The pictures below show the two closets doors. They are plastic and are very similar to a shower curtain. We observed where they were already torn and broken in various places.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$2,800 to bring the electrical system up to code and upgrade the breaker box to a minimum of 15 circuits and install various electrical items. The contractor did not upgrade the breaker box. According to the homeowner, she cannot use her washer and dryer at the same time because it trips the breaker.
- The contractor was paid \$700 to install a new door and new screen door. The new door (exterior door) installed was a hollow core door and the new screen door was not installed.
- The contractor was paid \$700 to install the front door (exterior door) with a peephole and dead bolt. The contractor used a hollow core door.
- The contractor was paid \$50 to install a PVC drainline to the existing hot water heater. The homeowner informed us that he installed the PVC drainline, not the contractor.
- The contractor was paid \$850 to install new tile flooring with shoe molding in the kitchen. However, the contractor installed vinyl flooring that had a tile pattern.

LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana
Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

**8. Tri-Delta SHARE Grant Program
Lake Providence, Louisiana**

- Pictures of kitchen ceiling where the contractor was paid \$600 to repair damaged area of texturing and paint the ceiling. The ceiling was painted, but the damaged area of texturing was not repaired.



LOUISIANA HOUSING FINANCE AGENCY

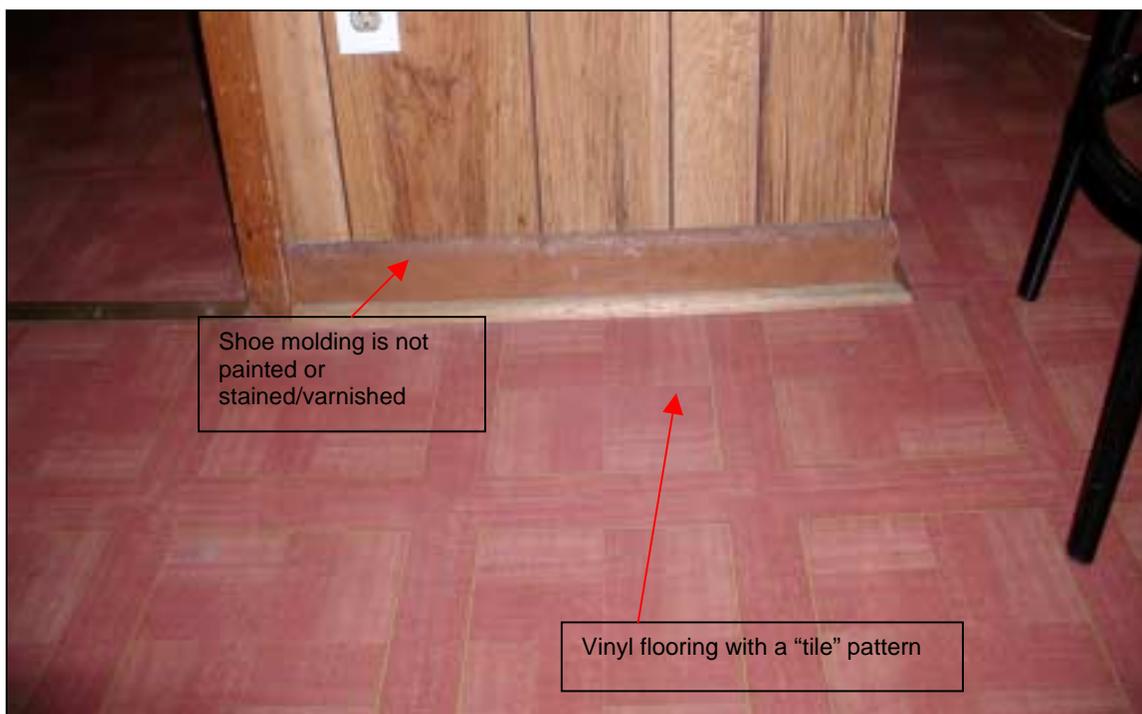
Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- Picture of the bathroom ceiling where the contractor was paid \$350 to install a new heater/light/vent. The homeowner put strips of duck tape around the new heater/light/vent to cover the holes in the ceiling and tried to patch some of the holes with putty. The homeowner said that the new heater/light/vent was smaller than the old one and that resulted in holes in the ceiling around the new heater/light/vent.



- The contractor was paid \$3,200 to install new tile flooring with shoe molding throughout the house. The shoe molding was supposed to be painted or stained/varnished with two coats. We observed that the shoe molding was not painted or stained/varnished. Also, the contractor did not install tile. He installed vinyl with a “tile” pattern.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$300 to install eight security bars (excessive cost). In addition, the security bars are approximately 2½ foot aluminum rods that are simply placed in the window casing. They are not attached to the window and do not have a locking device. See picture below of a window with a security bar.



- The contractor was paid \$150 to install a new light fixture in the living room (excessive cost). The homeowner said that the electrical wiring was already present and the contractor did not have to do any re-wiring for the light. The contractor simply purchased a new light fixture and changed out the old light fixture with the new light fixture. In addition, as the picture shows below, the light fixture is inappropriate for a living room. The light fixture would be more appropriate in the hallway or as an outside porch light.
- The homeowner said that the contractor damaged the ceiling of her house while putting the roof on. She said that the light fixture in the kitchen fell off and broke and the bedroom ceiling was damaged by water because after the old roof was removed and before the new roof could be put on it rained.



LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana
Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

9. SHARE Grant Program
Lake Providence, Louisiana

- The contractor was paid \$3,200 to remove and replace damaged or rotten decking and install new 20-year shingles. We observed where the new shingles were installed over the old shingles (see picture below). Also, the roof appeared warped and wavy. In addition, without removing the old shingles, the contractor would not be able to replace the damaged or rotten decking.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$900 to repair and clean the heating unit. According to the homeowner, only a thermostat was installed. The homeowner said that the heater was working before the contractor installed the new thermostat and after he installed the thermostat it did not work and the contractor never came back to fix it.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$500 to install new formica on the counter top including a backsplash. The contractor did a substandard job as the seam in the formica is coming apart.



Formica with large gap in seam

- The contractor was paid \$200 to repair the corner molding and stain all walls and woodwork in the kitchen. The walls and woodwork were stained, but the corner molding was not repaired.



Corner molding not repaired

LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$150 to install a sliding handicap shower chair. The contractor did not install the sliding handicap shower chair. Instead, the contractor purchased a plastic stool that the homeowner can place in the tub.



- The contractor was paid \$450 to repair the attic fan and shutters. We observed that the attic fan did not work. The homeowner said that the contractor did not repair the attic fan.

**10. SHARE Grant Program
Lake Providence, Louisiana**

- The contractor was paid \$2,500 to install a new roof. We inspected the roof and found that one out of the three places we inspected did not have felt (tar paper) under the shingles.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$650 to upgrade and label the breaker box. We did not see any evidence of new parts or breaker switches and the breaker switches/circuits were not labeled. The homeowner stated that the contractor did not do anything to the breaker box.



- The contractor was paid \$300 to install floor molding in the hallway and paint the molding. According to the homeowner, the contractor varnished the molding, but the molding was already there. The homeowner said that at least she expected the contractor to replace the molding where it was broken (see picture below), but the contractor did not replace the broken molding in the hallway.



Broken molding

- The contractor was paid for the following work; however, the work was never done:
 - \$100 to install a duck vent for the A/C unit in the bathroom
 - \$330 to install a new exterior door at the carport
 - \$150 to install an interior closet door in the left front bedroom. The contractor just installed new doorknobs according to the owner.
 - \$100 to repair hole in the wall in the living room

LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana
Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

**11. SHARE Grant Program
Pioneer, Louisiana**

- The contractor was paid \$5,460 to install vinyl siding. This was not finished. The vinyl siding was installed only on the outside walls. The siding was not installed on the eaves and facial boards and there was no skirt (underpinning) installed to the ground.



LOUISIANA HOUSING FINANCE AGENCY

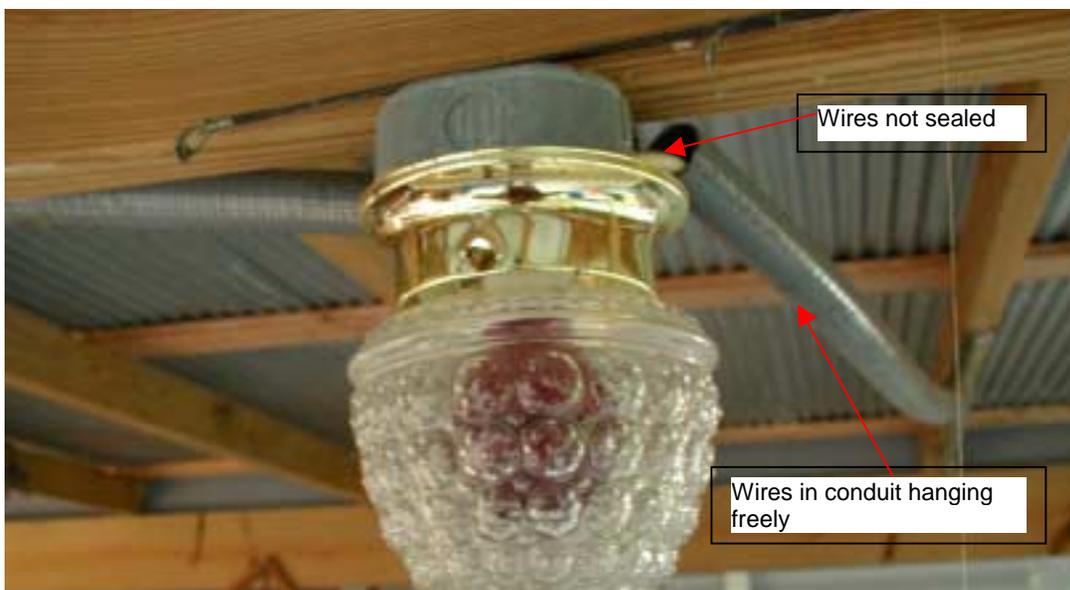
Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$325 to install flashing to the roof. This was not installed properly. The shingles are under the flashing. See picture below.



- The contractor was paid \$200 to place all exposed wires into a conduit. This was not done properly. A weatherproof box was not used (there are portions of the wires not sealed), and the wires in the conduit are hanging freely instead of being firmly attached to the structure. See pictures below.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$650 to install a tub/shower unit with grab bar and hand held shower complete with plumbing. Instead of installing a "unit," a tub with a tub surround kit was used--about five pieces of hard plastic material glued on the wall. In addition, the homeowner said that the tub that was replaced was cast iron and a much better tub than the one the contractor installed.



- The contractor was paid \$200 to install a heater/vent/light in the bathroom. The contractor did not vent it through the roof (odor, etc., goes to the attic).



- The contractor was paid \$50 to replace the window lock on two windows. This was not done.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$540 to install carpet in the rear middle bedroom. The picture on the right shows a substandard job where the carpet meets the door threshold.



- The contractor was paid \$400 (excessive cost) for the concrete steps in the picture below.



- The contractor was paid \$50 (excessive cost) to replace two outlet covers. The picture to the right is one of the \$25 outlet covers.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

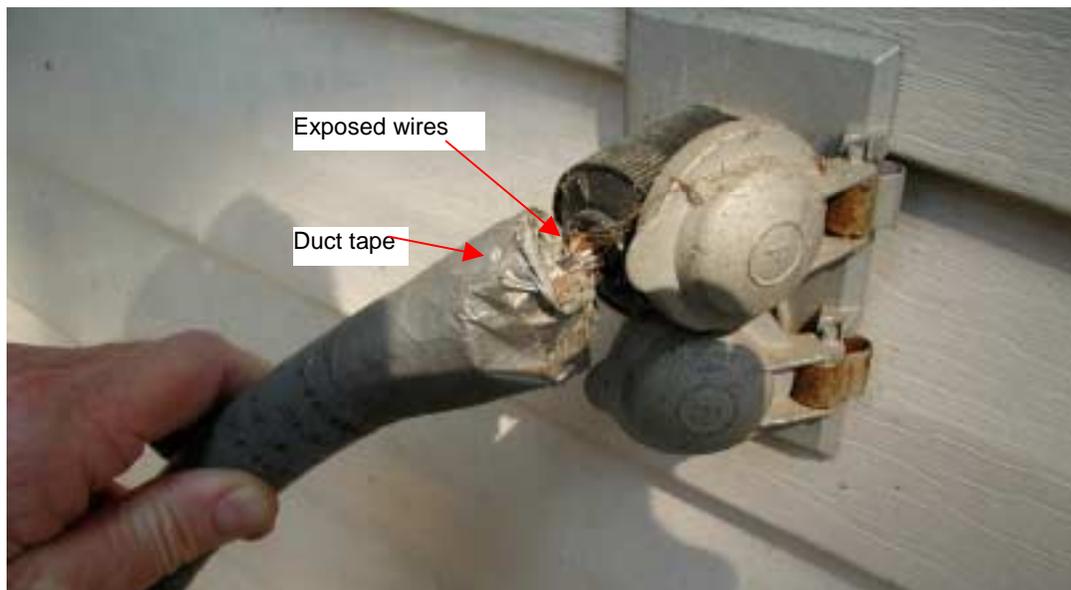
Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

**12. SHARE Grant Program
Pioneer, Louisiana**

- The contractor was paid \$400 (excessive cost) for the steps in the picture below and \$100 (excessive cost) for the handrail.



- The contractor was paid \$375 to place exposed exterior wires in a conduit and \$200 to re-wire the outside receptacle. As the picture shows below, substandard work was done for putting the exterior wires in a conduit. Also, nothing was done to the outside receptacle (see picture below of outside receptacle where the outside air conditioner unit is plugged in).



LOUISIANA HOUSING FINANCE AGENCY
Baton Rouge, Louisiana
Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$1,450 (excessive cost) to install a heat pump on the rear porch. The pictures below show the heat pump that was installed.

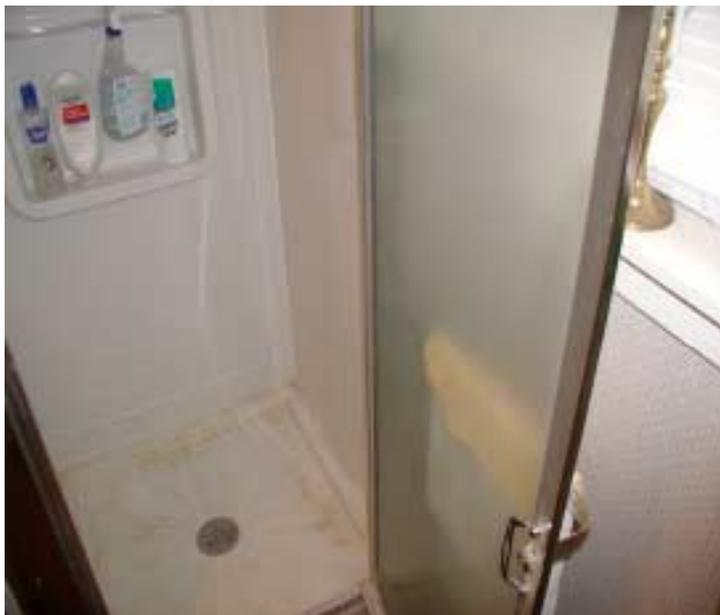


LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$850 to replace the shower stall complete with plumbing and hardware. Instead of installing a shower stall, plastic sheeting was glued on the three walls (the shower door was already there before any work was done to the shower).



- The contractor was paid \$650 to bring the unit up to code for ground fault reception. According to the homeowner, this was not done. We inspected the breaker box and did not see any evidence that anything was changed or that any new circuits had been added.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Continued)

- The contractor was paid \$350 to install an exterior door with hardware for the side entrance. Also, the builder was paid \$450 to replace the exterior door unit and hardware on the back porch. For both doors, the contractor installed hollow core doors instead of a solid or metal door. See pictures below of hollow core doors.



- The contractor was paid \$350 to place wires on the rear inside porch into a conduit. The contractor did a substandard job. Portions of the wire are still exposed and the conduit is just “hanging” in places instead of being firmly attached to the structure.



LOUISIANA HOUSING FINANCE AGENCY

Baton Rouge, Louisiana

Pictures and Other Related Information Supporting
SHARE Grant Program Findings (Concluded)

- The contractor was paid \$450 to replace the space heater in the hallway. The contractor removed the space heater but did not install another heater.
- The contractor was paid \$400 to wash the exterior of the house. According to the homeowner, the workers used her small power washer and that they did a poor job. The homeowner said that some places were not even washed.

Attachment II

List of Meals Provided by
Morgan Keegan to LHFA Employees
and Board Members

Date	Place	Type of Entertainment	Approximate Number of LHFA Attendees
11/15/00	Juban's Restaurant Baton Rouge, LA	Lunch	1
02/14/01	Juban's Restaurant Baton Rouge, LA	Lunch	1
02/21/01	Bogie's Deli Downtown ⁽¹⁾ Memphis, TN	Lunch	9
02/21/01	Caffé Society ⁽¹⁾ Memphis, TN	Dinner	9
03/13/01	Wyndham New Orleans New Orleans, LA	Lunch	2
03/13/01	DaJoNel's Restaurant Baton Rouge, LA	Closing Dinner	17
03/19/01	Kinhead's ⁽²⁾ Washington, DC	Dinner	9
03/20/01	Loews Hotel ⁽²⁾ Washington, DC	Lunch	2
03/21/01	U.S. Senate Restaurant ⁽²⁾ Washington, DC	Lunch	2
04/10/01	Juban's Restaurant Baton Rouge, LA	Dinner	3
07/11/01	Casino Rouge Baton Rouge, LA	Lunch	1
08/08/01	Cippranis Baton Rouge, LA	Lunch	2
08/22/01	Bacco Restaurant New Orleans, LA	Closing Lunch	1
09/30/01	Il Panino ⁽³⁾ Boston, MA	Dinner	1
10/01/01	The Federalist ⁽³⁾ Boston, MA	Dinner	4
10/10/01	Juban's Restaurant Baton Rouge, LA	Lunch	1
10/31/01	Wyndham New Orleans New Orleans, LA	Lunch	1
12/11/01	Juban's Restaurant Baton Rouge, LA	Closing Dinner	37
03/11/02	Ristorante I RICCHI ⁽²⁾ Washington, DC	Dinner	9
06/12/02	Juban's Restaurant Baton Rouge, LA	Lunch	4
07/10/02	Juban's Restaurant Baton Rouge, LA	Lunch	3
08/20/02	Sullivan's Steakhouse Baton Rouge, LA	Dinner	2
09/30/02	Restaurant Antoine ⁽²⁾ New Orleans, LA	Dinner	10

To celebrate the closing or issuance of a particular bond issue

- (1) Attendance at an actual pricing of a Single Family bond issue from Morgan Keegan's trading desk in Memphis
- (2) National Association of Housing Finance Agencies Legislative Conference to visit with the Louisiana Congressional Delegation for legislative changes to assist housing.
- (3) Attendance at the national meeting of the National Council of State Housing Agencies

Appendix A

Management's Response



Louisiana Housing Finance Agency

M. J. "MIKE" FOSTER, JR.
GOVERNOR

HELENA R. CUNNINGHAM
PRESIDENT

December 18, 2002

2415 QUAIL DRIVE
BATON ROUGE, LOUISIANA 70808
(225) 763-8700
FAX (225) 763-8710
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Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
State of Louisiana
1600 North Third St.
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: Response to Limited Examination Report Concerning the Louisiana
Housing Finance Agency SHARE Programs and Ethics Policies

Dear Dr. Kyle:

The Louisiana Housing Finance Agency ("LHFA" or "Agency") is in receipt of a preliminary draft of a limited examination report (sometimes "Report" or "Auditor's Report"), provided on December 2, 2002, concerning the LHFA's Substandard Housing Assistance for Rural Economies ("SHARE") Programs and the LHFA's Ethics Policies. We thank you and your staff for your efforts, and offer the following response, to be incorporated into the final Report.

SHARE Program Management

The Agency has reviewed the findings and recommendations of the Legislative Auditor ("Auditor"), for improvements to the SHARE and Tri-Delta SHARE Grant Programs (sometimes collectively "the SHARE Programs"). Additionally, upon first learning of questions concerning SHARE Projects, the LHFA conducted an internal investigation of the Programs. We have found certain deficiencies in the training of the personnel evaluating the completion status of these projects, and in the procedures employed in documenting stages of completion, punch list items, etc. One of the managers responsible for these issues, and an employee who performed completion evaluations on a number of projects, including those discussed in the Audit Report, are no longer employed by the LHFA.

Further, the Agency has employed independent construction consultants to inspect not only the twelve properties included in the Auditor's Report, but all of the Tri-Delta SHARE projects, and a wide representative sampling of the SHARE projects. We have received inspection reports for the twelve "audited" properties, and for forty-eight

additional properties rehabilitated by Kelco, Inc.¹ Lists have been sent to the contractor advising that he needs to repair substandard conditions, and perform work which has not been done, to complete each project and/or to comply with his warranty. The Agency has also engaged in face-to-face discussions with the contractor, and LGU consultants,² to discuss problems with performance and to obtain satisfaction from the contractor. As of the date of this response, the contractor has returned to all of the properties noted in the Auditor's Report, as well as to several other Program properties, and performed additional work to comply with his obligations.

The vast majority of the items noted in the Auditor's Report (Attachment 1) have already been included on punch lists to the contractor, and he has returned to those properties. The few additional items noted in the Report, not yet included on punch lists, are being sent to the contractor for completion, presently.

In its review of these Programs, the Agency has discovered that some of the rehabilitation work has been deficient, and that costs incurred for some of the work have been excessive. It should be noted, however, that some of the excessive costs have resulted due to circumstances that are difficult to control. For example, the work was often required to be performed within a compressed time period, due to federal program restrictions. This sometimes made it difficult to obtain more than one bid. Additionally, some of the work has been performed by contractors, such as Kelco, who had to either send work crews to stay in a location for several days, or hire local employees. Time constraints, multiple projects, problems regarding local material and labor availability, and other factors contributed to higher costs.

In sum, the LHFA's investigation of these Programs, as does the Auditor's Report, suggests that further specific actions be taken to achieve the maximum benefits of these Programs for homeowners. The Agency intends to proceed as follows:

- Complete an evaluation of all properties rehabilitated under the Tri-Delta SHARE Program, with the aid of the Agency's independent construction consultants.
- Conduct a random sampling review of additional projects in each of the local geographic areas, and by each of the contractors and consultants, involved in the SHARE Program. This will be done to determine whether any pattern exists

¹ Kelco, Inc. was the contractor on all of the projects for which deficiencies were noted in the Report. A few of the forty-eight projects noted could not be inspected when the LHFA's consultant arrived, due to problems with meeting arrangements; however, the project documents have been reviewed, and they will be re-inspected.

² As noted in the Auditor's Report, most of the local governmental units hire construction consultants who determine which local properties are eligible for SHARE benefits, decide what rehabilitation work will be performed, deal with the contractor concerning pricing, and generally monitor the progress and completion of the work.

- involving any other contractor or participant, which might require further specific investigation, follow-up, or rehabilitative work.
- Follow up with Kelco, and any other contractor, for completion of uncompleted or improperly completed work discovered in the inspection process. Input from the homeowners and LGU consultants will be sought, as appropriate to maximize performance. The property owners will receive the benefits intended by the Programs.
 - For the future, the Agency will develop more detailed specifications for the rehabilitation work to be performed, to facilitate more accountability on the part of the participants.
 - In addition to better specifications, the Agency will develop procedures designed to attract more competitive bids, and to promote economy in the Programs.
 - The LHFA is also considering modifications in the documents and procedures utilized in periodic inspections of the projects in these Programs, both during construction and at completion. For example, a more specific procedure for developing and completing punch list items, before authorization of final payment, seems advisable.
 - The Agency is evaluating the level of experience in construction, pricing, etc. needed by Agency personnel to better implement and monitor the Programs. Presently, the Agency is utilizing the services of qualified third party consultants to evaluate and document project completion. We will consider whether to continue to utilize such consultants, hire/train Agency personnel, or utilize some combination of Agency personnel and third party experts, in the future.
 - Finally, the Auditor's recommendation regarding certifications by LHFA employees that they are in compliance with the Agency's ethics policies are addressed below.

Ethics Policy Issues

The Auditor's Report suggests that LHFA employees and Board members have violated the Agency's internal ethics policies by accepting meals from entities that do business with the LHFA. Initially, we note that the ethics policies referenced are taken from the LHFA's "Personnel Policy No. 1." These policies apply to *employees* of the Agency, and were not intended to apply to the members of the Board of Commissioners. See copy attached. Sections III(A) and III(B) specifically refer to "employees", and Section IV specifically states "This policy is applicable to all employees of the Agency."

The Agency has for many years arranged regular seminars for its Board members, to instruct them regarding Louisiana's Code of Governmental Ethics.³ The seminars are typically presented by representatives of the Board of Ethics. They are designed to

³ Seminars and workshops are also regularly conducted for Agency employees and for persons/entities which do business with the LHFA, to discuss ethical restrictions and considerations.

educate new Board members and update existing members concerning the ethical guidelines applicable to them. Board members have always understood that the Code of Ethics allows them to accept meals sponsored or otherwise paid for by persons who do business with the Agency, under the circumstances specified in the Code.

Therefore, because Personnel Policy No. 1 does not apply to members of the LHFA Board of Commissioners, we respectfully request that the findings of the Auditor's Report, that Board members have not complied with LHFA internal policies, be deleted/revised accordingly.

The Auditor's findings relative to LHFA's ethics policies for employees do raise issues which merit further review. It has long been a practice of the Agency, for example, for Board members, managers, and certain staff to attend closing functions which include meals sponsored by third parties. Based on its enabling act, the Agency's mission is to bring together a diverse group of banking institutions, real estate developers, contractors, underwriters, bond companies, trustees, and others in the private sector to develop decent housing and related benefits to the underserved citizens of Louisiana.⁴ While it is true the sponsors of these events are businesses which benefit from opportunities with the Agency, the Agency, and therefore those served by the Agency, benefit from maintaining good working relationships among those who provide services for LHFA programs.

On the other hand, the LHFA certainly intends to avoid any appearance that its employees do not comply with Agency policies. Therefore, the Agency has taken and will take the following actions to avoid any confusion concerning application of its internal policies: (1) the Board has suspended the effect of Personnel Policy No. 1 pending immediate review of the situation by a committee, Agency management, and the Board; (2) during the suspension of the policy, the Agency will apply the terms of the Code of Governmental Ethics to ongoing activities of employees; (3) a committee appointed by the Board Chairman will review the language of Personnel Policy No. 1 and make recommendations to Agency management and the Board, who will ultimately determine the policy to be followed, and whether any changes in employee activities are warranted; (4) Agency management will more closely monitor activities of LHFA personnel to develop appropriate policy compliance safeguards, possibly to include the annual certification letters suggested by the Auditor's Report; (5) the Agency will be certain that LHFA ethics policies will be made known to all present and future Agency employees, and to persons/entities that do business with the LHFA; and (6) the Agency has added internal staff whose duties will specifically include the monitoring of ethical policies and compliance of Agency activities with such policies.

⁴ See La. R.S. 40:600.1(B).

The Auditor's Report further suggests that receipt of tickets by Board member Larry Ferdinand and by LHFA President Helena Cunningham may have violated Louisiana's Code of Governmental Ethics. The Report alleges these items were things of "economic value" received from Bank One, as an entity which has a business relationship with the LHFA, such as would be prohibited by La. R.S. 42:1115(A).

The LHFA President and managers have made a practice of contacting the Louisiana Board of Ethics to determine the correct course of conduct when potential ethical issues arise. Pursuant to those previous conversations, some of which involved issues very similar to those presented in the Report, it was understood and believed that the acceptance by Ms. Cunningham of the Summerfest dinner/concert invitation was not violative of the Ethics Code. This understanding was based upon two principles: (1) food, drink or refreshments, and entertainment incidental thereto,⁵ is not considered a "thing of economic value" under the Ethics Code, and therefore the consumption by a public servant is not a prohibited act; and (2) the tickets were not purchased by Bank One, but were complimentary as part of Bank One's sponsorship of the Summerfest event, therefore they were not considered "things of economic value" as defined by the Ethics Code.⁶ Recent conversations with the Deputy General Counsel to the Board of Ethics have indicated that the Agency's belief and understanding remains valid.

The Agency is investigating further the Essence Festival tickets provided to Board member Larry Ferdinand in July 2001. Information indicates Mr. Ferdinand received these tickets from an individual who is a long-time friend of his, but who also works for Bank One. While it is unclear whether the tickets were provided in an effort to promote Bank One's business relationship with the Agency, Mr. Ferdinand has reimbursed the value of these tickets to Bank One, to avoid any appearance of impropriety.

The Agency's investigation of the ethics issues raised in the Report discloses that the actions in question were engaged in, in each instance, under a good faith belief that they were ethically proper. No knowing disregard of applicable ethics provisions has been discovered. For this reason, the LHFA respectfully requests that any reference in the Auditor's Report to "improprieties," or to a lack of integrity and/or public confidence in the LHFA, be deleted. The Agency will undertake the review and actions outlined above to make certain that ethical requirements are clear, that they are made known to all employees and others who do business with the Agency, and that monitoring procedures are established to promote and ensure compliance.

⁵ See copy of Bank One letter, attached.

⁶ While tickets to the event could have been purchased, the particular tickets offered were marked with no face value, because they were promotional only.

Daniel G. Kyle, Ph.D., CPA, CFE

December 6, 2002

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Agency management and the Board of Commissioners appreciate the information provided by the Auditor's Report. The Report will assist the Agency to improve aspects of its operations, and to better serve the State of Louisiana.

Very truly yours,

A handwritten signature in cursive script that reads "Helena R. Cunningham". The signature is written in black ink and is positioned above the printed name.

Helena R. Cunningham

President

Louisiana Housing Finance Agency

Bank One, NA
Mail Code LA2-2766
PO Box 1511
Baton Rouge, LA 70821-1511

tel 225 332 5991
fax 225 332 7961



December 5, 2002

Sent Via Telecopy (225) 763-8710

Ms. Helena Cunningham
President
Louisiana Housing Finance Agency
2415 Quail Drive
Baton Rouge, LA 70808

Dear Ms. Cunningham:

On November 13, 2002, I responded to an information request from the Louisiana Legislative Auditor regarding various entertainment services provided by Bank One to employees or board members of the LHFA. A copy of my reply is attached.

You have asked that I provide you with specific information about the two (2) tickets that I gave to you and your guest for the Bank One Summerfest dinner and concert on May 12, 2001. As a title sponsor of Summerfest, Bank One was provided several tables for this event at no cost. I used two tables to invite governmental clients. There were four (4) other governmental entities represented between the two tables. The service provided to each guest consisted of dinner and a concert. I noted the total value of the dinners (\$29.00) for you and your guest in my response to the Legislative Auditor. The concert tickets had no market value because they were complimentary to Bank One. I also noted this fact in my reply.

I trust that this information will be helpful. Please call me at 332-5991 if I can be of further assistance in this matter.

Sincerely,

A handwritten signature in black ink that reads "John Warner Smith". The signature is written in a cursive style with a large initial "J" and "S".

John Warner Smith
Vice President
Government and Not for Profit Banking

